



STATE BOARD OF EQUALIZATION

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Executive Director

September 12, 1996

Dear X-----,

This responds to your letter dated June 18, 1996, on behalf of X----- . You request advice concerning whether California sales and use tax apply to X----- sale of municipal bonds to California banks. In your letter you state:

“X----- is a printer of municipal bonds. X----- maintains an office in California. American Banknote does not print the municipal bonds in California. The municipal bonds are printed and shipped to California from X----- location. X----- sells blank municipal Bonds to various banks located in California. The municipal bonds purchased by the banks are not registered and, as such, are not live. The authority to issue the bonds rests with the counties and municipalities and not the bank. The bank acts as a registering agent on behalf of the counties and municipalities. Upon the completion of the registration process, the municipal bonds are considered to be live.

“In order for the municipal bonds to be registered, the following must occur: The municipal bond must be dated as of the registration date; signed by both the county or municipality guaranteeing the bond and the bank registering the bond; and entered into the registration book in the investor's name. The municipal bond is printed with the signature of the county or municipality issuing the bond through a facsimile or rubber stamp or a signature plate containing the official signature. Upon purchase by an investor, the bank signs and dates the municipal bond to authenticate the fact that the municipal bond was issued to the investor listed in the registration book. Upon completion of the registration process, the municipal bond is live.”

Retail sales of tangible personal property in California are subject to sales tax, measured by gross receipts, unless the sale is exempt from taxation by statute. (Rev. & Tax. Code section 6051.) When sales tax does not apply, use tax, measured by the sales price, applies to the use of tangible personal property purchased from a retailer for the storage, use, or other consumption of that property in California. (Rev. & Tax. Code section 6201.)

We agree with your analysis that the municipal bonds are printed materials. As you note, a retail sale is defined in Revenue and Taxation Code section 6007 as a "sale for any purpose other than resale." X----- prints blank municipal bonds and sells the blank bonds to various banks in California. However, the banks do not sell blank municipal bonds to investors. In order to be sold to investors, the bonds must be registered. Part of the registration process consists of the bonds being dated as of the registration date; signed by both the county or municipality guaranteeing the bond and the bank registering the bond; and printed with the signature of the county or municipality issuing the bond through a facsimile or rubber stamp or a signature plate containing the official signature.

As registering agents for the counties and municipalities, the banks issue bond certificates to investors. The banks use the forms as part of the registration service that they perform. The certificates are only an indicia of the investor's ownership interest in the municipal bonds. Investors do not enter into contracts with the banks to purchase the security document itself, but rather the interest in the bond that the document represents. The transfer of the bonds to the investors is incidental to the bank's service of registering the bond. For sales and use tax purposes, the banks are consumers of the forms they use in performing registration services, not retailers of the forms to the investors or to the entity which issues the bond.

You also question whether the sale is exempt from sales and use tax because the municipal bonds are official documents. You state that an exemption from the tax exists for official documents and cite several annotations. We have reviewed the annotations to which you referred, and they are inapplicable to X-----'s sale of forms. The transfers which are the subject of the annotations are transfers of copies of official documents by governmental entities which are required by law to furnish the copies. Further, the forms that X----- sells to banks are not official documents when sold. They do not become official documents until after they have been registered by the banks. Accordingly, X-----'s sale of blank forms is not a transfer of official documents.

Finally, as a retailer selling tangible personal property for use in this state, X----- - is required to register with this board to collect use tax. We are unable to find a record of a seller's permit or a Certificate of Registration - Use Tax issued in the name of X----- . If it has not done so, X----- should contact its nearest California State Board of Equalization office to complete an application for registration,

I hope this discussion has answered your questions. If you need anything further, please do not hesitate to write again.

Sincerely

Robert E. Thomas
Tax Counsel

RET/cmm

Cc: X----- District Administrator